

Message Text

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ACTION NEA-11

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INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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E.O. 11652: N/A
TAGS: EIND IN
SUBJECT: INCREASE IN DOMESTIC PRICES OF INDIAN STEEL; SHIFT
IN DEMAND AND SUPPLY RELATIONSHIP TO SELLERS MARKET

FOLLOWING SENT ACTION NEW DELHI INFO BOMBAY MADRAS FROM CALCUTTA
JUN 09 REPEATED:

QUOTE

CALCUTTA 0976

DEPT PASS US TREASURY

E.O. 11652: NA
TAGS: EIND, IN
SUBJECT: INCREASE IN DOMESTIC PRICES OF INDIAN STEEL; SHIFT
IN DEMAND AND SUPPLY RELATIONSHIP TO SELLERS MARKET

REF: LYDON-COE TELECON JUNE 9

1. EFFECTIVE JUNE 5, THE DOMESTIC PRICES OF DIFFERENT
CATEGORIES OF INDIAN STEEL HAVE BEEN RAISED BY AN
AVERAGE OF RS 175 (APPROX. \$20) PER METRIC TON, ACCOR-
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DING TO AN ANNOUNCEMENT BY THE JOINT PLANT COMMITTEE (JPC),
HEADQUARTERED IN CALCUTTA. THIS TAKES PLACE IN A SITUATION
OF RISING INTENRAL DEMAND AND DEVELOPING SUPPLY SHORTAGES
(SEE COMMENT BELOW). JPC IS AN APEX OF THE MAIN
PRODUCERS OF STEEL IN BOTH PUBLIC AND PRIVATE SECTOR, AND
IS SUPERVISED BY THE GOI IRON AND STEEL CONTROLLER.

2. THE PRESENT REVISION IS JUSTIFIED AS NECESSARY TO COVER A RISE IN THE INPUT AND COVERION COSTS OF THE MAIN PRODUCERS OF STEEL OVER THE PAST FIVE YEARS. THE INCREASE, VARYING FOR DIFFERENT CATEGORIES OF STEEL BETWEEN 5 AND 30 PERCENT, IS THE FIRST MAJOR CHANGE IN DOMESTIC STEEL PRICES SINCE OCTOBER 1973.

3. JPC SIMULTANEOUSLY ANNOUNCED THE ABOLITION OF THE PREVIOUS TWO-TIER SYSTEM OF STEEL PRICES, THUS ELIMINATING PRICE DIFFERENCES BETWEEN EX-FACTORY BULK DELIVERY AND STOCKYARD DELIVERY TO SMALL CONSUMERS. THE REVISED NEW PRICES ANNOUNCED BY THE JPC WILL BE UNIFORMLY APPLICABLE TO LARGE AND SMALL CONSUMERS IRRESPECTIVE OF EX-FACTORY BULK SUPPLY OR STOCKYARD SALES OF SMALL LOTS. THE MAIN PRODUCERS WILL, HOWEVER, BE ENTITLED TO RECOVER HANDLING CHARGES.

4. JPC HAS ALSO ANNOUNCED A GOI DECISION THAT THE MAIN PRODUCERS WILL BE ELIGIBLE TO LEVY A DEVELOPMENT SURCHARGE OF RS 100 PER METRIC TON ON CONSUMERS OF NON-PRIORITY CATEGORIES OF STEEL. THIS INCLUDES BILLETS, BARS, SKELP, GP/GC SHEETS, HR COILS, CR COILS, HR SHEETS, AND CR SHEETS. ACCORDING TO THE GOI PLAN, THE MAIN PRODUCERS WILL BE REQUIRED TO ESTABLISH A SEPARATE DEVELOPMENT FUND WITH THE EXTRA REVENUE UNCLASSIFIED

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EARNED BY SALES OF NON-PRIORITY CATEGORIES OF STEEL, WHICH WILL BE USED FOR MODERNIZATION AND DEVELOPMENT OF THE INTEGRATED STEEL PLANTS. UNOFFICIAL ESTIMATES PUT THE ADDITIONAL AMOUNT EXPECTED TO BE AVAILABLE ANNUALLY FOR THE FUND AT RS 500 MILLION (APPROX: \$58 MILLION).

5. LOCAL LARGE-SCALE END-USERS, OF STEEL INCLUDING ENGINEERING UNITS, RESENT THE PRICE RISE AND HAVE COMPLAINED OF ITS ADVERSE IMPACT ON EXPORT POTENTIAL. ON THE OTHER HAND, JPC HAS ARGUED THAT THE NEW PRICES OF STEEL, ALTHOUGH SUBSTANTIALLY HIGHER THAN THE OLD JPC PAPER RATES, SHOW MARGINAL INCREASE ABOVE THE STOCKYARD PRICES OF STEEL BEFORE JUNE 5, 1978. A SENIOR OFFICIAL OF THE JPC HAS INFORMED US THAT HARDLY 30 PERCENT OF THE DOMESTIC CONSUMERS OF STEEL WILL ACTUALLY BE AFFECTED AND THE ADVERSE IMPACT OF THE ESCALATION OF STEEL PRICES ON THE NATIONAL ECONOMY IS LIKELY TO BE NEGLIGIBLE. ON THE CONTRARY, THE ABOLITION OF DISCRIMINATORY DUAL PRICES OF STEEL WILL REMOVE UNFAIR COMPETITION AND HELP GROWTH OF SMALL INDUSTRIES, ACCORDING TO THIS JPC REPRESENTATIVE.

6. CONGEN COMMENTS: THE NEW UNIFORM PRICES OF STEEL ANNOUNCED BY JPC SIGNIFIES AN EXTENSION OF JPC, THAT IS GOI, CONTROL OVER THE STOCKYARD PRICES AND SALES WHICH ACCOUNT FOR 70 PERCENT OF DOMESTIC STEEL SALES. JPC HAS NOT SIMPLY ENDORSED THE INCREASE IN STOCKYARD PRICES BY THE MAIN PRODUCERS DURING MARCH-MAY 1978. THE GOI'S STEEL MINISTER, BIJU PATNAIK, APPEARS ANXIOUS TO REACTIVATE THE JPC AND RESTORE ITS CONTROL OVER THE DISTRIBUTION AND PRICES OF STEEL IN ORDER TO DEAL WITH THE INCREASING DOMESTIC SHORTAGE OF STEEL. THE GOI ALSO SEEKS TO REDUCE STEEL SHORTAGES BY RESTRICTING EXPORTS AND FACILITATING LIBERAL IMPORTS OF STRUCTURAL AND FLAT PRODUCTS. A SHARP UPTURN IN UNCLASSIFIED

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PUBLIC EXPENDITURE ON IRRIGATION, POWER, AND OTHER DEVELOPMENT PROJECTS HAS PROBABLY INDUCED A RAPID RISE IN DOMESTIC DEMAND FOR STEEL.

7. THE DOMESTIC STEEL SCENE IS CHANGING FAST TO A SELLER'S MARKET AS A RAPID RISE IN DEMAND IN THE PAST SIX MONTHS HAS RESULTED IN SHORTAGES OF STEEL MATERIALS INCLUDING BILLETS, STRUCTURALS, AND FLAT PRODUCTS. TOTAL STEEL STOCKS HELD AT PLANTS AND STOCKYARDS BY THE MAIN PRODUCERS AT THE END OF APRIL 1978, ESTIMATED ABOUT 571,000 TONS, WERE ONLY ABOUT HALF OF THE CARRYOVER STOCKS IN THE CORRESPONDING PERIOD OF 1977. THIS SHARP FALL IN STEEL STOCKS, WHICH ARE NOW ESTIMATED TO BE ADEQUATE FOR AVERAGE SALES OF SIX WEEKS, HAS SPURRED SPECULATIVE DEMAND. TAKING ADVANTAGE OF RISING DEMAND, TRADERS AND MIDDLEMEN HAVE BEEN ABLE TO MAKE ADDITIONAL GAINS FROM HIGH MARKET PREMIUM. JPC HAS NOW RAISED THE PRICES TO CURB SPECULATIVE AND NON-ESSENTIAL DEMAND FOR STEEL, MOP-UP A LARGE PORTION OF THE HIGH MARKET PREMIUM, AND MOBILISE ADDITIONAL REVENUES PRIMARILY FOR THE MAIN PRODUCERS IN ORDER TO HELP INCREASE THE CAPACITY AND PRODUCTION OF THE INTEGRATED STEEL PLANTS.

8. OFFICIAL PRIORITY FOR DOMESTIC STEEL CONSUMERS IS LIKELY TO REDUCE EXPORT EARNINGS FROM STEEL AND ENGINEERING PRODUCTS. DESPITE THE GREATER EXPORT OPPORTUNITIES OFFERED BY A RECENT UPTURN IN INTERNATIONAL DEMAND AND INTERNATIONAL PRICES OF STEEL, THE COUNTRY'S REVISED STEEL EXPORT TARGET FOR IFY 1978-79 MAY BE LESS THAN 10 PERCENT OF THE ORIGINAL TARGET OF 1.2 MILLION TONS. ON SUPPLY SIDE, A PURPOSE OF THE PRICE RISE, WHICH UNCLASSIFIED

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SHOULD GIVE ADDITIONAL REVENUE EARNINGS OF RS 1.1 BILLION TO THE STEEL PRODUCERS, ISMTO ENCOURAGE FAST GROWTH IN PRODUCTION, BUT THE CONTINUING DISRUPTION IN ELECTRIC POWER SUPPLY AND EMERGING LABOR PROBLEMS WILL LIKELY JAMPER THE TARGETTED 16 PERCENT INCREASE IN CRUDE STEEL OUTPUT TO 10 MILLION TONS BY THE END OF MARCH 1979. THE UNCERTAINTIES OF THE STEEL PRODUCTION AND SUPPLY OUTLOOK MADE STRENGTHENED JPC CONTROL OVER PRICES AND DISTRIBUTION QUASI-INEVITABLE, AND THE NEW PACKAGE OF STEEL MEASURES APPEARS QUOTE RATIONAL IN THE INDIAN FRAMEWORK. WE ARE SPEARATELY POUCHING TO WASHINGTON (TREASURY) THE LIST OF REVISED PRICES OF DIFFERENT CATEGORIES OF STEEL AS ANNOUNCED BY JPC ON JUNE 5, 1978.

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